

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Peacock Township	County Lake
Fiscal Year End 3/31/2008	Opinion Date 5/1/2008	Date Audit Report Submitted to State August 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

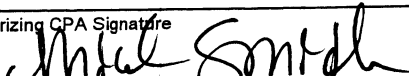
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter and SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 		Printed Name Michael Smith	License Number 11011029640

PEACOCK TOWNSHIP, LAKE COUNTY

IRONS, MICHIGAN

MARCH 31, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MARCH 31, 2008

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May 1, 2008

INDEPENDENT AUDITORS' REPORT

To the Township Board
Peacock Township
Lake County
Irons, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Peacock Township, Lake County, Irons, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Peacock Township, Lake County, Irons, Michigan, as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on pages 19-20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Peacock Township, Lake County, Irons, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Peacock Township, a general law township located in Lake County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Peacock Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$155,311. Of this amount, \$110,269 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$111,276. About 99.10% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2008.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$155,311 at March 31, 2008, meaning the Township’s assets were greater than its liabilities by this amount.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Peacock Township
Net Assets as of March 31, 2008

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 138,730
Non Current Assets	
Capital Assets	88,387
Less: Accumulated Depreciation	<u>44,352</u>
Total Non Current Assets	<u>44,035</u>
Total Assets	<u><u>\$ 182,765</u></u>
Liabilities	
Current Liabilities	<u>\$ 27,454</u>
Net Assets	
Invested in Capital Assets	44,035
Restricted for Specific Purposes	1,007
Unrestricted	<u>110,269</u>
Total Net Assets	<u>155,311</u>
Total Liabilities and Net Assets	<u><u>\$ 182,765</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township has \$110,269 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$3,896 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Peacock Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2008

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 2,151
Operating Grants and Contributions	2,995
General Revenues	
Taxes	66,576
State Grants	30,341
Interest Earnings	2,321
Other	<u>354</u>
Total Revenues	<u>104,738</u>
<u>Expenses</u>	
Legislative	4,657
General Government	54,450
Public Safety	25,120
Public Works	2,792
Community and Economic Development	6,796
Other Functions	<u>7,027</u>
Total Expenses	<u>100,842</u>
Change in Net Assets	3,896
<u>NET ASSETS</u> - Beginning of Year	<u>151,415</u>
<u>NET ASSETS</u> - End of Year	<u><u>\$ 155,311</u></u>

Governmental Activities

During the fiscal year ended March 31, 2008, the Township's net assets increased by \$3,896 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant portion of the revenue for all governmental activities of Peacock Township comes from taxes. The Township levied 0.7610 mills for operating purposes and 0.8826 mills for fire protection.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general governmental expenses that total \$54,450. Public Safety represented the next largest expense at \$25,120. Depreciation expense added \$3,841 to general governmental expenses.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Peacock Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Peacock Township's governmental funds reported combined ending fund balances of \$111,276. Approximately 99.10% or \$110,269 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation.

General Fund – The General Fund increased its fund balance by \$1,535 which brings the fund balance to \$110,269, which is unreserved. All of the General Fund's functions, except for Assessor function, ended the year with expenditures below budgeted amounts. This overage was funded by greater than anticipated revenues and available fund balance. Taxes amounted to \$42,075. State grants were collected in the amount of \$33,336.

Fire Fund – The Fire Fund decreased its fund balance by \$8, which brings the fund balance to \$1,007. Taxes amounted to \$24,501. The only expenditures were for contracted fire protection services in the amount of \$24,501 and office supplies in the amount of \$19.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2008 amounted to \$44,035 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Peacock Township
Capital Assets as of March 31, 2008

	Governmental Activities
Land and Land Improvements	\$ 9,151
Buildings	54,644
Equipment	<u>24,592</u>
	88,387
Less Accumulated Depreciation	<u>44,352</u>
Net Capital Assets	<u><u>\$ 44,035</u></u>

Major capital asset events during the current fiscal year included the following:

- Purchased a computer at a cost of \$1,370.
- Purchased BS & A software for the assessor at a cost of \$4,840.

Long-Term Debt. Peacock Township has no obligation for any long-term debt as of March 31, 2008.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. The Township's millage rate was reduced again by the Headlee Amendment rollback.

A fire millage was once again levied for the 2008 tax roll.

These factors were considered in preparing the Township's budgets for the 2008-09 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Peacock Township at 4480 W. 4 Mile Road, Irons, Michigan 49644.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 124,975
Taxes Receivable	6,401
Due from External Parties (Fiduciary Fund)	272
Due from Other Governments	<u>7,082</u>
Total Current Assets	<u>138,730</u>
 <u>CAPITAL ASSETS</u>	
Land	4
Land Improvements	9,147
Buildings	54,644
Equipment	<u>24,592</u>
	88,387
Less Accumulated Depreciation	<u>44,352</u>
Net Capital Assets	<u>44,035</u>
 TOTAL ASSETS	 <u><u>\$ 182,765</u></u>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 2,953
Due to Other Governments	<u>24,501</u>
 TOTAL LIABILITIES	 <u>27,454</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	44,035
Restricted for:	
Fire Protection	1,007
Unrestricted	<u>110,269</u>
 TOTAL NET ASSETS	 <u><u>\$ 155,311</u></u>

The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGE IN NET ASSETS TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 4,657	\$ 0	\$ 0	\$ 0	\$ (4,657)
General Government	54,450	91	0	0	(54,359)
Public Safety	25,120	0	611	0	(24,509)
Public Works	2,792	0	2,384	0	(408)
Community and Economic Development	6,796	2,060	0	0	(4,736)
Other Functions	7,027	0	0	0	(7,027)
Total Governmental Activities	\$ 100,842	\$ 2,151	\$ 2,995	\$ 0	(95,696)
<u>GENERAL REVENUES</u>					
					66,576
					30,341
					2,321
					354
					99,592
					3,896
					151,415
					\$ 155,311

The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2008

	<u>GENERAL FUND</u>	<u>FIRE FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash	\$ 102,904	\$ 22,071	\$ 124,975
Taxes Receivable	2,964	3,437	6,401
Due from Other Governments	7,082	0	7,082
Due from Other Funds	272	0	272
Total Assets	<u>113,222</u>	<u>25,508</u>	<u>138,730</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	2,953	0	2,953
Due to Other Governments	0	24,501	24,501
Total Liabilities	<u>2,953</u>	<u>24,501</u>	<u>27,454</u>
 <u>FUND BALANCE</u>			
Reserved for:			
Fire Protection	0	1,007	1,007
Unreserved			
Undesignated	110,269	0	110,269
Total Fund Balance	<u>110,269</u>	<u>1,007</u>	<u>111,276</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 113,222</u>	 <u>\$ 25,508</u>	 <u>\$ 138,730</u>

The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2008

Total Fund Balances for Governmental Funds	\$	111,276
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$	4	
Land Improvements		9,147	
Buildings		54,644	
Equipment		24,592	
Accumulated Depreciation		(44,352)	44,035

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>155,311</u>
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The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

	<u>GENERAL</u> <u>FUND</u>	<u>FIRE</u> <u>FUND</u>	<u>TOTALS</u>
<u>REVENUES</u>			
Taxes	\$ 42,075	\$ 24,501	\$ 66,576
Licenses and Permits	2,060	0	2,060
State Grants	33,336	0	33,336
Charges for Services	66	0	66
Interest and Rents	2,335	11	2,346
Other Revenues	354	0	354
	<hr/>	<hr/>	<hr/>
Total Revenues	80,226	24,512	104,738
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
Legislative	4,657	0	4,657
General Government	56,819	0	56,819
Public Safety	600	24,520	25,120
Public Works	2,792	0	2,792
Community and Economic Development	6,796	0	6,796
Other Functions	7,027	0	7,027
	<hr/>	<hr/>	<hr/>
Total Expenditures	78,691	24,520	103,211
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	1,535	(8)	1,527
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	108,734	1,015	109,749
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 110,269	\$ 1,007	\$ 111,276
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 1,527
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(3,841)
Capital Outlay	<u>6,210</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,896</u></u>

The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS AND LIABILITIES
MARCH 31, 2008

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 272
	<hr/>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 272
	<hr/>

The accompanying notes are an integral part of the financial statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Peacock Township is a general law township located in Lake County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Peacock Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

Additionally, Peacock Township reports the following fund types:

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Township states that the Township is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- a. **Commercial Paper** with a rating of not less than A1 from Moody's and P1 from Standard & Poor's.
- b. **Mutual Funds** which are limited to securities whose intention is to maintain a net asset value of \$1.00 per share. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Township. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- c. **Savings Deposit Receipt** which is paid at a stated rate.
- d. **Savings Account** interest is paid in accordance with the policy of the financial institution.
- e. **Certificate of Deposit – CD** – for a specified period for a specified rate.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

f. **U.S. Treasury Bills**

g. **U.S. Treasury Notes**

h. **U.S. Treasury Bonds**

- i. **Investment Pools** organized under the authority of the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7 (MCL 124.501 to MCL 124.512), the Surplus Funds Investment Pool Act, 1982 PA 367 (129.111 to 129.118) and the Local Government Investment Pool Act, 1985 PA 121, (MCL 129.141 to 129.150). Those pools managed by contractual agreement contained in the interlocal agreement, banks and the Township Treasurer, respectively. All the pools are limited to investments described in section 1 (1)(a) through (g).

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of Peacock Township totaled \$27,710,046, on which ad valorem taxes levied consisted of 0.7610 mills for Peacock Township operating purposes and 0.8826 mills for Peacock Township fire protection. The levies raised approximately \$21,126 for operating purposes and \$24,501 for fire protection.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as required.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Land improvements	20
Public domain infrastructure	50
Equipment and Furniture	5-10

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 28, 2007, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
Special Revenue Funds			
Fire Fund	\$ 23,000	\$	24,520

These overages were funded by greater than anticipated revenues and available fund balance.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are on deposit with Lake Osceola State Bank and Huntington Bank in Baldwin, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, none of the government's bank balance of \$126,318 was exposed to custodial credit risk because it was insured and collateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>		<u>Fire</u>		<u>Total</u>
Receivables					
Taxes	\$ 2,964	\$	3,437	\$	6,401
Due from Other Governments	<u>7,082</u>		<u>0</u>		<u>7,082</u>
	\$ 10,046	\$	3,437	\$	<u><u>13,483</u></u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 4	\$ 0	\$ 0	\$ 4
Capital assets, being depreciated				
Buildings	54,644	0	0	54,644
Land Improvements	9,147	0	0	9,147
Equipment	18,382	6,210	0	24,592
Total capital assets, being depreciated	82,173	6,210	0	88,383
Less accumulated depreciation for:				
Buildings	36,616	1,232	0	37,848
Land Improvements	725	457	0	1,182
Machinery and Equipment	3,170	2,152	0	5,322
Total accumulated depreciation	40,511	3,841	0	44,352
Total capital assets, being depreciated, net	41,662	2,369	0	44,031
Governmental activities capital assets, net	\$ 41,666	\$ 2,369	\$ 0	\$ 44,035

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 3,841
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Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2008.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2008, were:

	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
Governmental Funds		
General Fund	\$ 272	\$ 0
Fiduciary Funds		
Current Tax Collection Fund	0	272
	<u>\$ 272</u>	<u>\$ 272</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

E. Long-Term Debt

At March 31, 2008, the Township was not obligated for any long-term debt.

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved	
Special Revenue Funds	
Fire Fund	
Fire Protection	<u>\$ 1,007</u>

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Property Tax Administration Fee

The Township passed a resolution to charge 1% administration fee on all advalorem, taxes levied. Also, a late penalty fee of 3% shall be added after February 14th and shall terminate on the last day of February. The resolution is to continue in force and effect until revoked by the township board.

The Township has determined that authorization costs of tax collection will be repeatedly in excess of the revenue generated by the administration fee so that a restricted earnings account is not reflected in these statements.

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2008

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>						
Taxes	\$ 30,300	\$ 30,300	\$ 42,075	\$ 23,000	\$ 23,000	\$ 24,501
Licenses and Permits	0	0	2,060	0	0	0
State Grants	39,900	39,900	33,336	0	0	0
Charges for Services	0	0	66	0	0	0
Interest and Rents	0	0	2,335	0	0	11
Other Revenues	0	0	354	0	0	0
Total Revenues	70,200	70,200	80,226	23,000	23,000	24,512
<u>EXPENDITURES</u>						
Legislative	8,900	8,900	4,657	0	0	0
General Government						
Supervisor	6,200	6,200	6,000	0	0	0
Elections	600	600	188	0	0	0
Assessor	19,500	22,900	25,429	0	0	0
Attorney	1,000	1,000	0	0	0	0
Clerk	6,500	6,500	6,120	0	0	0
Board of Review	700	700	560	0	0	0
Treasurer	16,000	16,000	10,014	0	0	0
Building and Grounds	15,200	15,200	7,918	0	0	0
Cemetery	1,000	1,000	590	0	0	0
Public Safety						
Fire	0	0	0	23,000	23,000	24,520
Liquor Enforcement	600	600	600	0	0	0
Public Works						
Highways, Streets, Bridges	2,000	2,000	1,920	0	0	0
Street Lighting	1,000	1,000	772	0	0	0
Refuse Collection/Disposal	200	200	100	0	0	0
Community and Economic Development						
Planning	1,300	1,300	1,010	0	0	0
Zoning	5,900	5,900	5,786	0	0	0

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2008

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Other Functions						
Insurance and Bonds	5,500	5,500	4,152	0	0	0
Employee Benefits	4,000	4,000	2,875	0	0	0
Contingency	2,000	2,000	0	0	0	0
Total Expenditures	98,100	101,500	78,691	23,000	23,000	24,520
Net Change in Fund Balance	(27,900)	(31,300)	1,535	0	0	(8)
<u>FUND BALANCE</u> - Beginning of Year	80,000	80,000	108,734	0	0	1,015
<u>FUND BALANCE</u> - End of Year	\$ 52,100	\$ 48,700	\$ 110,269	\$ 0	\$ 0	\$ 1,007

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2008

	BALANCE			BALANCE
	4/1/2007	ADDITIONS	DEDUCTIONS	3/31/2008
<hr/>				
<u>ASSETS</u>				
Cash	\$ 182	\$ 951,457	\$ 951,367	\$ 272
<hr/>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 182	\$ 53,144	\$ 53,054	\$ 272
Due to Other Organizations and Individuals	0	2,497	2,497	0
Due to Other Governments	0	895,816	895,816	0
<hr/>				
Total Liabilities	\$ 182	\$ 951,457	\$ 951,367	\$ 272
<hr/>				

PEACOCK TOWNSHIP, LAKE COUNTY
IRONS, MICHIGAN

STATEMENT OF 2007 TAX ROLL
MARCH 31, 2008

TAXES ASSESSED

County	\$	306,764	
County - State Education Tax		167,785	
Township			
Operating		21,126	
Fire		24,501	
School			
Baldwin Community Schools		443,942	
Intermediate School			
Mason - Lake Intermediate		<u>99,187</u>	\$ 1,063,305

TAXES COLLECTED

County	\$	273,908	
County - State Education Tax		154,361	
Township			
Operating		18,162	
Fire		21,064	
School			
Baldwin Community Schools		382,997	
Intermediate School			
Mason - Lake Intermediate		<u>85,272</u>	<u>935,764</u>

TAXES RETURNED DELINQUENT

County	\$	32,856	
County - State Education Tax		13,424	
Township			
Operating		2,964	
Fire		3,437	
School			
Baldwin Community Schools		60,945	
Intermediate School			
Mason - Lake Intermediate		<u>13,915</u>	<u>\$ 127,541</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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May 1, 2008

To the Township Board
Peacock Township
Lake County
Irons, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Peacock Township, Lake County, Irons, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Peacock Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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May 1, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Township Board
Peacock Township
Lake County
Irons, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Peacock Township for the year ended March 31, 2008, and have issued our report thereon dated May 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 24, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Peacock Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 1, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Peacock Township for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

Property Tax Administration Fee

As reported in Note IV.E of the Notes to Financial Statements, the township is charging a 1% property tax administration fee. The township has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but has not formally taken action to write off this loss. We recommend that the Township keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

Fire Extra Voted Millage

The Township should record the fire extra voted millage on a separate set of books in the future, out of the General Fund. This will help account for the proper tax collection fund transactions. We recommend that a separate QuickBooks company be set up for the Fire Fund.

Computerized Recordkeeping

In reviewing the Townships computerized records, we proposed numerous adjustments to the general ledger. We recommend that the clerk and treasurer compare and balance records with each other on a monthly basis to insure that cash accounts reconcile.

Payroll

While examining the payroll records we found that the quarterly federal payroll tax forms 941 do not agree with the forms W-2 or W-3 filed for the 2007 calendar year. Specifically, the wages in box 2 on the forms 941 do not agree with the wages in box 1 on the forms W-2 and W-3. These two figures should agree. It appears that reimbursements for various expenses to Township employees were included in box 2 of the forms 941. We recommend that corrected forms 941 be filed for the 2007 calendar year to correct this error. Please contact us should the Township desire assistance with these corrections.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.